

Record: 1**Title:**New Zealand keen on Thai trade hub**Authors:**Wiriyapong, Nareerat**Source:**Bangkok Post (Thailand). 11/20/2013.**Document Type:**Article**Accession Number:**2W62367276418**Database:**Newspaper Source**New Zealand keen on Thai trade hub****TRADE
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Nareerat Wiriyapong

Nov. 20--Thailand's geographical advantages prompted New Zealand firms to consider expanding their presence to Southeast Asia using Thailand as a regional hub, says New Zealand Prime Minister John Key.

In an interview with the Bangkok Post, Mr Key said a broad range of opportunities are available in Thailand and neighbouring countries, including Cambodia and Laos. Myanmar has gone through rapid reforms and New Zealand recently changed its position towards the country.

For example, law firms in New Zealand are looking at business opportunities in Myanmar through a Bangkok base, he said.

My Key is leading a delegation of 22 companies to Thailand for a bilateral visit from Nov 17-20 following a trip by Prime Minister Yingluck Shinawatra to New Zealand a month ago.

"Thailand has geographical advantages with developed infrastructures, and is a democratic country with predictability and a legal system," he said.

With 57 years of bilateral relations, Thailand and New Zealand have two free-trade agreements (FTA) including the Thai-New Zealand Closer Economic Partnership (CEP) signed in 2005. The Asean-Australia-New Zealand FTA came into effect in 2010.

Trade in goods has nearly doubled since the signing of the CEP, reaching NZ\$2.17 billion in the first six months of this year from NZ\$1.67 billion for all of 2005. In March, the two leaders vowed to double bilateral trade by 2020.

Exports from Thailand to New Zealand totalled NZ\$1.54 billion in the first half of this year, nearly double from NZ\$819 million in 2005, consisting of mainly vehicles, polymers, and air conditioners. Over 90% of Thai products entering New Zealand are subject to CEP privileges or enter duty-free.

New Zealand's exports to Thailand amounted to NZ\$632 million, half of which are daily-use products, followed by wood products, apples and seafood.

In fiscal year 2012 ending in March, New Zealand investments in Thailand totalled NZ\$29 million.

Mr Key said the food and beverage, information technology and education sectors are considered high potential for New Zealand investors considering setting up here.

Orion Health already announced a partnership with Bumrungrad Hospital to expand its presence in the eHealth market in Southeast Asia.

Global logistics company Mainfreight plans to open its first Thailand office for its air and sea network in response to requests from its multinational customers to set up a presence in the region. Chief executive and managing director Don Braid said Thailand is a natural choice for its initial expansion in Asean.

"Thailand is perfectly positioned to provide intra-Asia trade growth, as well as facilitate existing trade within the Mainfreight network. We see Thailand as a leading economy in the 2015 Asean Economic Community," he said.

Mainfreight expects to double the size of its Bangkok office in the first year of operation to handle in excess of 3,000 shipments annually, said Mr Braid.

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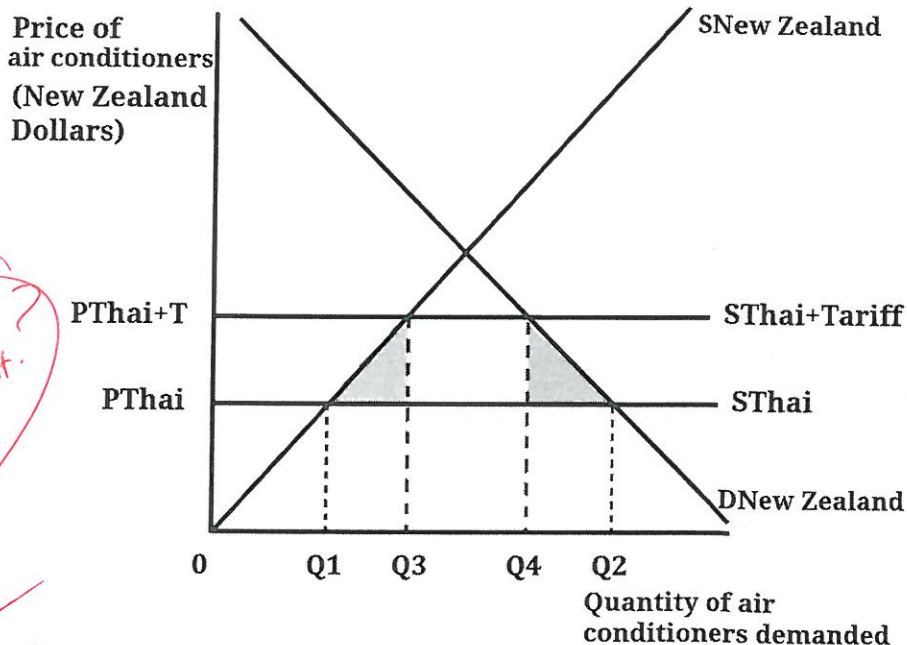
**Source:** Bangkok Post (Thailand), Nov 20, 2013

**Item:** 2W62367276418



This article is concerned how New Zealand is seeking to expand into Southeast Asia by forming the "...Thai-New Zealand Closer Economic Partnership (CEP), a free trade agreement (FTA)." An FTA is formed by two or more nations who make an agreement to completely eliminate tariffs on most goods and services produced in and imported from all other member states.<sup>1</sup> Such trading blocs are formed by countries in order to approach a truer form of free trade.

### Creation of Trade after the FTA (eg. air conditioners)



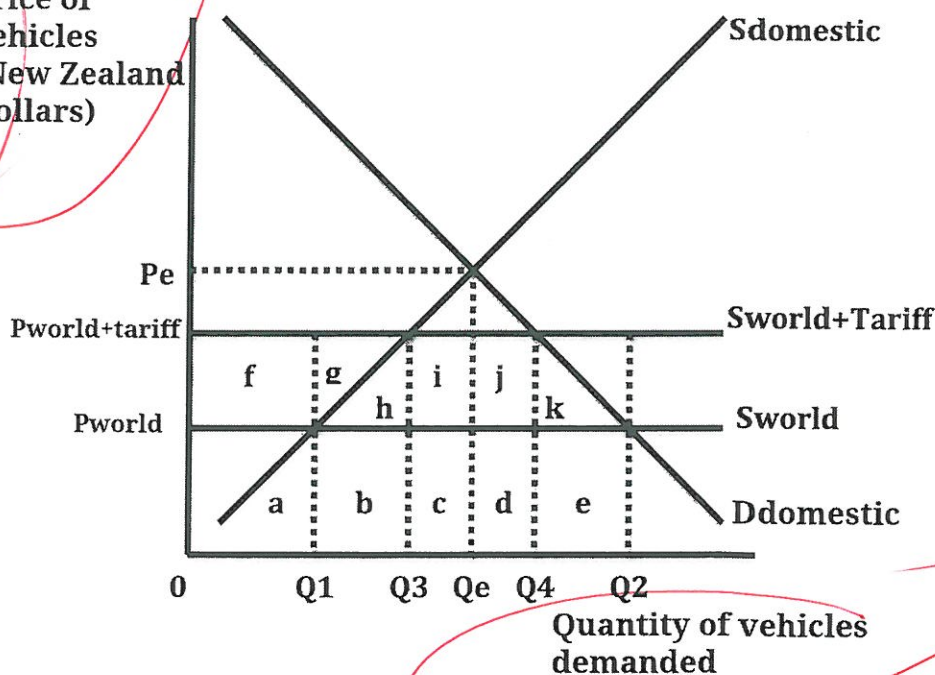
Before New Zealand and Thailand formed the CEP FTA, New Zealand imported  $S_{\text{Thai}} + \text{Tariff}$  Thai air conditioners at price  $P_{\text{Thai}} + T$ . Here, the trade barrier protected domestic New Zealand air conditioner producers, as they were able to produce  $0 \sim Q_3$  at the higher price. However the formation of the FTA eliminated tariffs on "Over 90% of Thai products entering New Zealand...", lowering the price from  $P_{\text{Thai}} + T$  to  $P_{\text{Thai}}$ , and increasing supply of Thai air conditioners from  $Q_3 \sim Q_4$ , to  $Q_1 \sim Q_2$ , where the triangles shaded represent the regained world efficiency and consumer surplus. As reported by the article, export revenue increased from NZ\$819 million to NZ\$1.54 billion after the formation of the FTA, as a result of eliminating tariffs. This indicates that Thailand has the comparative advantage in producing air conditioners, as the increase in total revenue suggests trade creation; where "The entry of a country into a customs union leads to the production of a good or service transferring from a high-cost producer to a low-cost producer".<sup>2</sup> Trade is created as the more efficient producer, Thailand can now make full use of her comparative advantage in air conditioner making.

### Eliminating Tariff on Thai imports

<sup>1</sup> Maley, Sean, and Jason Welker. "Trading Blocs." *Economics*. Oxford: Pearson Education, 2011. 511. Print.

<sup>2</sup> BLINK AND DORTON.

Price of vehicles  
(New Zealand Dollars)



As stated in the article, "...over 90% of Thai products enter New Zealand duty-free", meaning that tariffs are completely eliminated on those goods and services as a result of the FTA. A tariff is a tax charged on imported goods, thus are viewed as an added cost of production by firms, shifting the supply curve up.<sup>3</sup> A decrease in the cost of production leads to improved efficiency, which is one of the results of forming a FTA. Before the FTA was into effect, New Zealand produced 0~Q3 vehicles at Pworld+tariff, while she imported Q3~Q4 vehicles. However with the FTA, prices decreased from Pworld+tariff to Pworld, where New Zealand produces from 0~Q1 vehicles, and imports Q1~Q2 vehicles from Thailand. With the elimination of tariffs on imported goods and services, Thailand increased her vehicle exports to New Zealand from Q3~Q4, to Q1~Q2, which can now be produced at the lower price level of Pworld.

The article states, "Thailand's geographical advantages [such as being located in Southeast Asia] prompted New Zealand.." to form this FTA, since she wanted to expand into the region. Though the revenue the New Zealand government loses accumulates in the long-term, the increase in export revenue the country experiences due to the FTA outweighs the losses the government undergoes. This may also lead to trade imbalances in the long-term, as currently Thailand's exports total NZ\$1.54 billion, while New Zealand's exports only total NZ\$632 million. This may be disadvantageous for New Zealand, as she is importing more than twice as much as she exports; a situation of current account deficit.

Once New Zealand goods and services enter Thailand, they can travel to other countries Thailand is in a trading bloc with; a long-term advantage which also applies to

<sup>3</sup> Maley, Sean, and Jason Welker. "Types of protectionism." *Economics*. Oxford: Pearson Education, 2011. 439. Print.



Thailand. As in the article, "New Zealand law firms are looking at business opportunities in Myanmar", and as Thailand is a part of ASEAN, where she has relations with Cambodia, Laos, and Myanmar, forming the FTA was advantageous to New Zealand as it enabled her goods and services to flow to ASEAN member states, via Thailand. Once trade becomes more prevalent between New Zealand and Thailand, in the long-run, they may expand this FTA by either evolving it to a customs union, or augment the size of the FTA.

Forming the FTA was also advantageous on a wider scale, as it efficiently allocates scarce resources within member nations, based on their comparative advantage. This is done by reallocating resources such as steel in vehicle production to the more efficient Thai producers than the relatively inefficient New Zealand producers. Yet globally, creating an FTA may still be considered a misallocation of resources, as it completely eliminates tariffs on all goods and services only within the member countries, thus blocks non-member countries even if they have the comparative advantage in vehicle making.

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Apply to article

Key

what might happen  
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good attempt at main tasks  
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Good luck